FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF PUBLIC EMPLOYEES' RETIREMENT FUND BOARD OF TRUSTEES

We have audited the accompanying basic financial statements of the Public Employees' Retirement Fund Board of Trustees (PERF), as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the Public Employees' Retirement Fund Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the fiduciary funds of the Public Employees' Retirement Fund Board of Trustees as of June 30, 2008, and the changes in the plan net assets of the fiduciary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory Section, Administrative Expenses, Investment Expenses, Contractual and Professional Service Expenses, Investment Section, Actuarial Section, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Administrative Expenses, Investment Expenses, and Contractual and Professional Service Expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

State Board of Accounts
STATE BOARD OF ACCOUNTS

September 30, 2008

Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Public Employees' Retirement Fund of Indiana (PERF) financial statements for the year ended June 30, 2008. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the Introductory Section of the *PERF Comprehensive Annual Financial Report*. The MD&A also should be read in conjunction with the Financial Statements, Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information.

The following retirement plans are included in the PERF financial statements: Public Employees' Retirement Fund; Judges' Retirement System; State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan; 1977 Police Officers' and Firefighters' Pension and Disability Fund; Prosecuting Attorneys' Retirement Fund; Legislators' Defined Benefit Plan and Legislators' Defined Contribution Plan. Also included in the financial statements are other non-retirement funds managed by PERF: the Public Safety Officers' Special Death Benefit Fund; the State Employees' Death Benefit Fund and the Pension Relief Fund. See Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

Financial Highlights

- The net assets of PERF were $15.7 billion as of June 30, 2008. Net assets of the retirement plans, which are held in trust to meet future benefit payments, were $15.6 billion as of June 30, 2008.
- The net assets of PERF decreased by $1.4 billion, or 8.4 percent, from the prior year. The decrease was due primarily to negative investment returns.
- Net assets of the Pension Relief Fund, which are held in trust for pool participants, were $172.4 million as of June 30, 2008, compared to $246.7 million as of June 30, 2007. Pension Relief Fund distributions are mandated by state law and continue to outpace revenues.
- Substantially all of the investments for the retirement plans and funds administered by PERF are pooled in the Consolidated Retirement Investment Fund (CRIF). The CRIF rate of return on investments for the year declined 7.9 percent (net of fees) on a market value basis, compared to last year's return of 17.8 percent. The decline was due primarily to negative returns in the domestic and global equity segments on an absolute and relative basis.
- As of July 1, 2007, the date of the most recent actuarial valuation, the Public Employees' Retirement Fund, the largest pension plan administered by PERF, is funded actuarially at 98.2 percent, which is greater than the 97.6 percent funded level as of July 1, 2006. Employer contributions are adjusted each year based on actuarial computations to fund the plan.

Overview of the Financial Statements

The Statement of Fiduciary Net Assets presents information on PERF's assets and liabilities and the resulting net assets held in trust for pension benefits, employee death benefits and pool participants. This statement reflects PERF's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities. This statement indicates the net assets available to pay future pension benefits and death benefits and gives a snapshot at a particular point in time.

The Statement of Changes in Fiduciary Net Assets presents information showing how PERF's net assets held in trust for pension benefits, employee death benefits and pool participants changed during the years ended June 30, 2007 and June 30, 2008. It reflects contributions by members and employers along with deductions for retirement benefits, distributions, Pension Relief Fund distributions and withdrawals, and administrative expenses. Investment income and losses during the period are also presented, showing income from investing and securities lending activities.

Management's Discussion and Analysis (continued)

Financial Analysis

Total assets of PERF were $18.9 billion as of June 30, 2008, compared to $21.6 billion as of June 30, 2007. The decrease in total assets was due primarily to negative investment returns, as well as a decrease in securities lending collateral.

Total liabilities were $3.2 billion as of June 30, 2008, compared to $4.4 billion as of June 30, 2007. The decrease was due to reduced securities lending collateral.

A summary of PERF's net assets is presented below:

Net Assets
(dollars in thousands)

	June 30, 2008	June 30, 2007	% Change
Assets			
Cash and Cash Equivalents	$ 747,349	$ 490,389	52.4 %
Securities Lending Collateral	2,036,840	3,283,955	(38.0)
Receivables	959,110	704,148	36.1
Investments	15,145,752	17,082,039	(11.3)
Capital Assets (Net)	2,926	3,087	(5.2)
Total Assets	**$ 18,891,977**	**$ 21,563,618**	**(12.4)%**
Liabilities			
Securities Lending Collateral	$ 2,036,840	$ 3,283,955	(38.0)%
Other Current Liabilities	1,117,814	1,098,093	1.8
Long-Term Liabilities	244	275	(11.3)
Total Liabilities	**$ 3,154,898**	**$ 4,382,323**	**(28.0)%**
Total Net Assets	**$ 15,737,079**	**$17,181,295**	**(8.4)%**

As the Net Assets table shows, plan net assets were $15.7 billion as of June 30, 2008, a decrease of $1.4 billion, or 8.4 percent, compared to the prior year. The decrease was due primarily to negative investment returns.

A summary of net assets by fund compared to the prior year is as follows:

Summary of Net Assets by Fund
(dollars in thousands)

	June 30, 2008	June 30, 2007	% Change
Public Employees' Retirement Fund	$ 12,073,470	$ 13,262,414	(9.0)%
Judges' Retirement System	219,426	233,386	(6.0)
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	61,076	63,172	(3.3)
1977 Police Officers' and Firefighters' Pension and Disability Fund	3,148,396	3,310,171	(4.9)
Prosecuting Attorneys' Retirement Fund	24,613	26,189	(6.0)
Legislators' Defined Benefit Plan	4,674	5,498	(15.0)
Legislators' Defined Contribution Plan	24,298	25,729	(5.6)
Public Safety Officers' Special Death Benefit Fund	2,459	2,232	10.2
State Employees' Death Benefit Fund	6,251	5,797	7.8
Pension Relief Fund	172,416	246,707	(30.1)
Total	**$ 15,737,079**	**$ 17,181,295**	**(8.4)%**

Substantially, all of the investments for the retirement plans and funds administered by PERF are pooled in the CRIF. The investments of the non-retirement funds administered by PERF are not included in the CRIF. The following table presents PERF's investment allocation in the CRIF compared to PERF's target investment allocation and the prior year allocation.

	June 30, 2008 Actual	June 30, 2008 Target	Allowable Range[1]	June 30, 2007 Actual
Domestic Equity	39.3%	40%	35 to 50%	48.0 %
International Equity	18.2	15	10 to 20	17.6
Fixed Income	17.6	15	10 to 20	15.3
Global Equity	9.8	10	5 to 15	10.6
TIPS	6.6	5	0 to 10	6.6
Alternative Investments	7.3	15	0 to 25	1.6
Cash	1.2	-	-	0.3
Total	**100%**	**100%**		**100%**

[1]See Notes to the Financial Statements, Note 6 for additional information.

Management's Discussion and Analysis (continued)

A summary of changes in net assets by fund compared to the prior year is as follows:

Changes in Net Assets
(dollars in thousands)

	June 30, 2008	June 30, 2007	% Change
Additions			
Member Contributions	$ 198,132	$ 186,293	6.4%
Employer Contributions	454,474	397,277	14.4
Contributions to Pension Relief Fund:			
From the state of Indiana	61,521	63,993	(3.9)
Other Contributions from the state	517	485	6.6
Net Investment Income / (Loss)	(1,371,497)	2,597,926	(152.8)
Transfers from Teachers' Retirement Fund	6,419	3,087	107.9
Other	405	290	39.7
Total Additions	**$ (650,029)**	**$ 3,249,351**	**(120.0%)**
Deductions			
Benefits	575,030	$ 527,301	9.1%
Distributions	49,977	52,481	(4.8)
Transfers to Teachers' Retirement Fund	6,847	6,928	(1.2)
Pension Relief Distributions	134,948	140,727	(4.1)
Local Unit Withdrawals[1]	2,422	2,267	6.8
Administrative Expenses	24,963	21,027	18.7
Total Deductions	**$794,187**	**$ 750,731**	**5.8 %**
Increase (Decrease) in Net Assets	**$ (1,444,216)**	**$ 2,498,620**	**(157.8)%**
Change in Net Assets Held in Trust for:			
Pension Benefits	$ (1,370,606)	$ 2,548,407	(153.8)%
State and Local Units[1]	(74,291)	(50,508)	(47.1)
Future Death Benefits[2]	681	721	(5.5)

[1]*Pension Relief Fund only.*
[2]*Other Employee Benefit Trust Funds.*

Additions
Additions needed to fund benefits are accumulated through member contributions, employer contributions and returns on invested funds. Member contributions for the year ended June 30, 2008 totaled $198.1 million. This represents an increase of $11.8 million or 6.4 percent, compared to the prior year. Employer contributions were $454.5 million, an increase of $57.2 million or 14.4 percent. Employer contributions are adjusted each year based on actuarial computations to fund the plan.

PERF recognized a net investment loss of $1.4 billion for the year ended June 30, 2008 compared to a net investment income of $2.6 billion the prior year. The total rate of return on the CRIF was negative 7.9 percent (net of fees) compared to a 17.8 percent return the prior year.

Indiana law effective for the fiscal year ended June 30, 2002, permitted cities and towns to defer receiving their earmarked relief payments from the Pension Relief Fund. The deferred amounts remain invested in the fund and are available to those cities and towns at their request. There were no deferrals during the year ended June 30, 2008. The state of Indiana makes contributions to the Pension Relief Fund. These contributions totaled $62 million and $64 million in the fiscal years ended June 30, 2008 and June 30, 2007, respectively.

Deductions
The deductions from PERF's net assets held in trust for pension benefits include retirement, disability and survivor benefits, distributions of contributions and interest/earnings or losses to former members, and administrative expenses. For the year ended June 30, 2008, benefits amounted to $575 million, an increase of $47.7 million or 9.1 percent from the prior year. The increase in benefits was due primarily to an increase in the number of retirees. Distributions paid out to former members were $50 million, which represents a decrease of $2.5 million or 4.8 percent from the prior year, primarily due to the large number of ASA distributions that were paid in the prior year to members who had separated from employment in previous years.

Administrative expenses were $25 million, an increase of $4 million or 18.7 percent, compared to the prior year. The increase was due primarily to an increase in staffing and computer services to improve operations.

Management's Discussion and Analysis (continued)

Historical Trends

A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the defined benefit pension plans administered by PERF as of the latest actuarial valuations were as follows:

	July 1, 2007	July 1, 2006
Public Employees' Retirement Fund	98.2%	97.6%
Judges' Retirement System	74.6	65.3
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	77.1	74.9
Prosecuting Attorneys' Retirement Fund	74.3	68.7
Legislators' Defined Benefit Plan	97.4	90.2
	January 1, 2007	**January 1, 2006**
1977 Police Officers' and Firefighters' Pension and Disability Fund	108.0%	97.2%

An analysis of the funding progress, employer contributions and a discussion of actuarial assumptions and methods is set forth in Note 5 and in the Required Supplementary Information of the Financial Section.

Statement of Fiduciary Net Assets

*As of June 30, 2008 (with Comparative Totals as of June 30, 2007)**

	Pension Trust Funds			
(dollars in thousands)	Public Employees' Retirement Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	1977 Police Officers' and Firefighters' Pension and Disability Fund
Assets				
Cash and Cash Equivalents	$ 574,867	$ 13,306	$ 3,145	$ 149,266
Securities Lending Collateral	1,563,501	29,821	8,351	428,072
Receivables				
Contributions	96,586	86	246	41,610
Investment Income	34,073	649	182	9,317
Due From Other Funds	19,004	-	-	-
Investment and Contract Sales	580,105	11,065	3,098	158,828
Member Loans	-	-	-	-
Miscellaneous Receivable	-	-	-	-
Due From Teachers' Retirement Fund	588	-	-	-
Total Receivables	**730,356**	**11,800**	**3,526**	**209,755**
Investments				
Debt Securities	2,698,804	51,475	14,414	738,907
Equity Securities	5,566,209	106,167	29,729	1,523,974
Mutual Funds and Collective Trust Funds	2,578,480	39,005	10,923	559,898
Other	769,299	14,671	4,109	210,600
Total Investments	**11,612,792**	**211,318**	**59,175**	**3,033,379**
Capital Assets				
Land	547	-	-	-
Building	2,893	-	-	-
Office Equipment	87	-	-	-
Accumulated Depreciation	(601)	-	-	-
Total Capital Assets	**2,926**	**-**	**-**	**-**
Total Assets	**14,484,442**	**266,245**	**74,197**	**3,820,472**
Liabilities				
Accounts Payable	12,085	-	-	38
Salaries and Benefits Payable	703	-	-	-
Investments Payable	831,529	15,860	4,441	227,665
Due To Teachers' Retirement Fund	2,910	-	-	-
Securities Lending Collateral	1,563,501	29,821	8,351	428,072
Due to Other Funds	-	1,138	329	16,301
Total Current Liabilities	**2,410,728**	**46,819**	**13,121**	**672,076**
Compensated Absences Liability-Long Term	244	**-**	**-**	**-**
Total Liabilities	**2,410,972**	**46,819**	**13,121**	**672,076**
Net Assets Held in Trust for:				
Pension Benefits (see Schedule of Funding Progress on page 55)	12,073,470	219,426	61,076	3,148,396
Future Death Benefits	-	-	-	-
State and Local Units	**-**	**-**	**-**	**-**
Total Net Assets Held in Trust	**$ 12,073,470**	**$ 219,426**	**$ 61,076**	**$ 3,148,396**

**The accompanying notes are an integral part of the financial statements.*

Pension Trust Funds			Other Employee Benefit Trust Funds		Investment Trust Fund		
	Legislators' Retirement System						
Prosecuting Attorneys' Retirement Fund	Defined Benefit Plan	Defined Contribution Plan	Public Safety Officers' Special Death Benefit Fund	State Employees' Death Benefit Fund	Pension Relief Fund	2008 Totals	2007 Totals
$ 1,223	$ 235	$ 3,211	$ 205	$ 97	$ 1,794	$ 747,349	$ 490,389
3,379	662	1,789	425	840	-	2,036,840	3,283,955
52	-	7	-	-	-	138,587	123,996
73	14	45	14	47	7	44,421	40,731
-	-	-	450	-	-	19,454	16,998
1,254	246	664	-	21	-	755,281	521,696
-	-	779	-	-	-	779	720
-	-	-	-	-	-	-	1
-	-	-	-	-	-	588	6
1,379	**260**	**1,495**	**464**	**68**	**7**	**959,110**	**704,148**
5,833	1,142	3,088	1,588	5,617	-	3,520,868	3,786,597
12,029	2,357	6,369	-	-	1	7,246,835	8,168,959
4,420	866	10,207	-	-	171,964	3,375,763	4,871,447
1,662	326	880	213	503	23	1,002,286	255,036
23,944	**4,691**	**20,544**	**1,801**	**6,120**	**171,988**	**15,145,752**	**17,082,039**
-	-	-	-	-	-	547	546
-	-	-	-	-	-	2,893	2,893
-	-	-	-	-	-	87	87
-	-	-	-	-	-	(601)	(439)
-	**-**	**-**	**-**	**-**	**-**	**2,926**	**3,087**
29,925	**5,848**	**27,039**	**2,895**	**7,125**	**173,789**	**18,891,977**	**21,563,618**
-	6	-	1	2	19	12,151	15,066
-	-	-	-	-	-	703	528
1,797	352	952	-	-	-	1,082,596	1,063,402
-	-	-	-	-	-	2,910	2,099
3,379	662	1,789	425	840	-	2,036,840	3,283,955
136	154	-	10	32	1,354	19,454	16,998
5,312	**1,174**	**2,741**	**436**	**874**	**1,373**	**3,154,654**	**4,382,048**
-	**-**	**-**	**-**	**-**	**-**	244	275
5,312	**1,174**	**2,741**	**436**	**874**	**1,373**	**3,154,898**	**4,382,323**
24,613	4,674	24,298	-	-	-	15,555,953	16,926,559
-	-	-	2,459	6,251	-	8,710	8,029
-	**-**	**-**	**-**	**-**	172,416	172,416	246,707
$ 24,613	**$ 4,674**	**$ 24,298**	**$ 2,459**	**$ 6,251**	**$ 172,416**	**$ 15,737,079**	**$ 17,181,295**

Statement of Changes in Fiduciary Net Assets

*For the year ended June 30, 2008 (with Comparative Totals for the year ended June 30, 2007)**

	Pension Trust Funds			
(dollars in thousands)	**Public Employees' Retirement Fund**	**Judges' Retirement System**	**State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan**	**1977 Police Officers' and Firefighters' Pension and Disability Fund**
Additions				
Contributions:				
Members	$ 155,728	$ 2,062	$ 981	$ 36,787
Employers	303,877	15,920	4,854	129,553
Other Contributions from State of Indiana:				
Cigarette Tax	-	-	-	-
Alcohol Tax	-	-	-	-
Bail Bond and Private University Fees	-	-	-	-
Lottery Proceeds	-	-	-	-
Total Contributions	**459,605**	**17,982**	**5,835**	**166,340**
Investment Income:				
Investment Income (Loss)	(1,043,068)	(18,478)	(4,971)	(256,245)
Securities Lending Income	95,519	1,833	495	25,601
Less Investment Expenses:				
Securities Lending Expenses	(80,651)	(1,547)	(417)	(21,593)
Other Investment Expenses	(51,718)	(941)	(263)	(13,508)
Net Investment Income (Loss)	**(1,079,918)**	**(19,133)**	**(5,156)**	**(265,745)**
Other Additions:				
Intergovernmental Transfers -				
Other Retirement Funds	6,355	64	-	-
Late Fees and Miscellaneous Income	288	-	-	57
Total Other Additions	**6,643**	**64**	**-**	**57**
Total Additions	**(613,670)**	**(1,087)**	**679**	**(99,348)**
Deductions				
Pension and Disability Benefits	501,637	12,579	2,681	55,974
Death Benefits	-	-	-	108
Distributions of Contributions and Interest	45,610	50	11	3,186
Intergovernmental Transfers -				
Other Retirement Funds	6,844	-	-	3
Pension Relief Distributions	-	-	-	-
Local Unit Withdrawals	-	-	-	-
Administrative Expenses	21,183	244	83	3,156
Total Deductions	**575,274**	**12,873**	**2,775**	**62,427**
Net Increase (Decrease)	**(1,188,944)**	**(13,960)**	**(2,096)**	**(161,775)**
Beginning Net Assets Held in Trust for:				
Pension Benefits	13,262,414	233,386	63,172	3,310,171
Future Death Benefits	-	-	-	-
State and Local Units	-	-	-	-
Ending Net Assets Held in Trust	**$ 12,073,470**	**$ 219,426**	**$ 61,076**	**$ 3,148,396**

**The accompanying notes are an integral part of the financial statements.*

Pension Trust Funds			Other Employee Benefit Trust Funds		Investment Trust Fund		
	Legislators' Retirement System						
Prosecuting Attorneys' Retirement Fund	Defined Benefit Plan	Defined Contribution Plan	Public Safety Officers' Special Death Benefit Fund	State Employees' Death Benefit Fund	Pension Relief Fund	2008 Totals	2007 Totals
$ 1,208	$ -	$ 1,366	$ -	$ -	$ -	$ 198,132	$ 186,293
170	100	-	-	-	-	454,474	397,277
-	-	-	-	-	28,278	28,278	31,682
-	-	-	-	-	3,243	3,243	2,311
-	-	-	517	-	-	517	485
-	-	-	-	-	30,000	30,000	30,000
1,378	**100**	**1,366**	**517**	**-**	**61,521**	**714,644**	**648,048**
(2,032)	(407)	(1,754)	167	478	2,947	(1,323,363)	2,645,823
203	42	106	25	49	-	123,873	144,617
(172)	(36)	(89)	(21)	(38)	-	(104,564)	(134,936)
(107)	(122)	(4)	(9)	(29)	(742)	(67,443)	(57,578)
(2,108)	**(523)**	**(1,741)**	**162**	**460**	**2,205**	**(1,371,497)**	**2,597,926**
-	-	-	-	-	-	6,419	3,087
-	-	60	-	-	-	405	290
-	**-**	**60**	**-**	**-**	**-**	**6,824**	**3,377**
(730)	**(423)**	**(315)**	**679**	**460**	**63,726**	**(650,029)**	**3,249,351**
806	345	-	-	-	-	574,022	526,929
-	-	-	450	-	450	1,008	372
4	-	1,116	-	-	-	49,977	52,481
-	-	-	-	-	-	6,847	6,928
-	-	-	-	-	134,948	134,948	140,727
-	-	-	-	-	2,422	2,422	2,267
36	56	-	2	6	197	24,963	21,027
846	**401**	**1,116**	**452**	**6**	**138,017**	**794,187**	**750,731**
(1,576)	**(824)**	**(1,431)**	**227**	**454**	**(74,291)**	**(1,444,216)**	**2,498,620**
26,189	5,498	25,729	-	-	-	16,926,559	14,378,152
-	-	-	2,232	5,797	-	8,029	7,308
-	-	-	-	-	246,707	246,707	297,215
$ 24,613	**$ 4,674**	**$ 24,298**	**$ 2,459**	**$ 6,251**	**$ 172,416**	**$ 15,737,079**	**$ 17,181,295**

Notes to the Financial Statements – June 30, 2008

Note 1. Description of Retirement Plans

(A) Public Employees' Retirement Fund

The Public Employees' Retirement Fund of Indiana plan (PERF plan) is a multiple-employer public employee retirement system and a defined benefit plan that acts as a common investment and administrative agent for units of state and local governments in Indiana. Established by the Indiana Legislature in 1945 and governed through the Public Employees' Retirement Fund of Indiana (PERF) Board of Trustees by Indiana Code (IC) 5-10.2 and IC 5-10.3, this trust fund provides a retirement program for most officers and employees of the state of Indiana who are not eligible for another program.

The PERF plan also covers many officers and employees of municipalities of the state, including counties, cities, towns, townships and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan, and is filed with and approved by the PERF Board of Trustees. In order to be a member, employees hired after June 30, 1982 must occupy positions normally requiring performance of 1,000 hours of service during a year. School corporation employees, however, as well as those hired before July 1, 1982 must occupy positions requiring service of 600 hours during a year.

At June 30, 2008, the number of participating political subdivisions was 1,204. At July 1, 2007, the PERF plan membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	60,332
Terminated employees entitled to benefits but not yet receiving them	14,789
Active employees: vested and non-vested	138,863
Total	**213,984**
Total covered payroll (dollars in thousands)	**$ 4,385,676**

The PERF plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. The mandatory employer contribution is a percentage of payroll, recommended by PERF's actuary (actuaries) and adopted by the PERF Board of Trustees, necessary to fund the pension benefit in accordance with IC 5-10.2-2-11. The annuity savings account consists of the member's contributions, set by statute at 3 percent of compensation, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts.

The pension benefits vests after 10 years of creditable service. The vesting period is eight years for certain elected officials. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's Annuity Savings Account instead of receiving the amount as an annuity. The annuity savings account may be withdrawn at any time should a member terminate employment prior to retirement. Withdrawal of the annuity savings account prior to retirement results in forfeiture of the related pension benefit.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of PERF plan covered employment. The average annual compensation in this calculation is an average of the member's highest 20 calendar quarters' salaries during PERF plan covered employment. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of PERF plan covered employment is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension, ranging from 44 to 94 percent of the pension benefit described above.

The PERF plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the spouse, or if there is no spouse, any dependent minor child(ren) or disabled dependent adult child(ren). This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits.

As of January 1, 2008, a 2 percent Cost of Living Adjustment (COLA) was effective for certain participants, survivors and beneficiaries of the PERF plan.

(B) Judges' Retirement System

The Judges' Retirement System is a single employer public employee retirement system and a defined benefit plan established in 1953, and is governed through the PERF Board of Trustees by IC 33-38-6, IC 33-38-7 and IC 33-38-8. Coverage is for any person who has served, is serving or shall serve as a regular judge of the (1) Supreme Court of the state of Indiana, (2) circuit court of any judicial court, (3) Indiana Tax Court or (4) county courts including: circuit, superior, criminal, probate, juvenile, and municipal courts. Indiana Code 33-38-8 applies to judges beginning service after August 31, 1985.

The Judges' Retirement System consists of two plans: the 1977 System and the 1985 System. The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within 10 days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. The 1985 System is mandatory for all new judges.

At July 1, 2007, the Judges' Retirement System membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	279
Terminated employees entitled to benefits but not yet receiving them	95
Active employees: vested and non-vested	258
Total	**632**
Total covered payroll (dollars in thousands)	**$ 29,712**

Member contributions are established by statute at 6 percent of total statutory compensation paid by the state of Indiana, deducted from the member's salary and remitted by the Auditor of State. However, no contribution is required and no such amounts shall be paid by the member for more than 22 years of service.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the state's General Fund. Indiana Code 33-38-6-17 provides that this appropriation include only funds sufficient to cover the aggregate liability of the fund for benefits to the end of the biennium on an actuarially funded basis. The statute also provides for remittance of docket fees and court fees which are considered employer contributions.

The Judges' Retirement System provides retirement, permanent disability and death benefits. Retirement benefits vest after eight years of creditable service. Judges who retire at or after age 65 with eight years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service is at least 85) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the amount the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit. The benefits of the retired judges that were former participants in the 1977 System are increased by the same percentage increase as the active judges' salary.

A reduced amount is paid for early retirements that may be selected upon attainment of age 62. There is no vesting requirement for permanent disability benefits.

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight years of service and was in service as a judge.

As of January 1, 2008, a 2 percent COLA was effective for participants, survivors and beneficiaries of the 1985 System. COLA increases for the 1985 System are determined by statute.

(C) State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

The State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (E, G & C Plan) was established in 1972 and is governed by IC 5-10-5.5, as amended. The E, G & C Plan is a single employer defined benefit plan for certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana state excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties.

At July 1, 2007, the E, G & C Plan membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	140
Terminated employees entitled to benefits but not yet receiving them	10
Active employees: vested and non-vested	344
Total	**494**
Total covered payroll (dollars in thousands)	**$ 17,715**

Members are required by statute to contribute 4 percent of the member's annual salary to the E, G & C Plan. If a member leaves covered employment or dies before 15 years of creditable service, accumulated member contributions plus interest, as credited by the PERF Board of Trustees, are distributed to the member, designated beneficiary or the member's estate. The state of Indiana, as the employer, is required by statute to contribute the remaining amount necessary to actuarially fund the benefits.

The E, G & C Plan provides retirement, disability and survivor benefits. Generally, retirement benefits vest after 15 years of creditable service. Each participant is required to retire on or before the first day of the month following the participant's 60th birthday. However, an officer who becomes a participant after the age of 50 must retire on the first day of the month following their 60th birthday or the first day of the month following completion of 10 years, whichever is earlier. A participant who is at least 55 years of age and the sum of the participant's years of creditable service and age in years equals at least 85 may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A step-rate benefits formula specified by statute is used to calculate benefits that are payable monthly for life. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with 15 years of creditable service. The retirement benefit is increased 1.67 percent of the participant's average annual salary for each year of service after 10 years.

Participants with one year of creditable service may purchase service credit for prior service in a position covered by any Indiana public retirement fund as defined under IC 5-10-5.5-7.5.

A participant is entitled to receive creditable service for the time the participant receives disability benefits under a state disability plan established under IC 5-10-8-7.

If a member who has accrued at least 15 years of service dies, the surviving spouse, or the parent(s), is entitled to benefits for life generally equal to 50 percent of the amount the participant would have received if retired. Surviving unmarried minor child(ren) are entitled to benefits equal to their proportionate share of the amount the participant would have received if retired. This benefit will continue until the child reaches 18 years of age or marries.

There is no vesting requirement for entitlement to the E, G & C Plan's permanent and temporary disability benefits. The disability benefit calculation is based on whether the disability arose in the line of duty, the degree of impairment as determined by PERF's medical authority, and the participant's monthly salary.

COLA increases for E, G & C Plan are equal to the increase for the PERF plan subject to the Indiana General Assembly providing sufficient funding for the increased cost of benefits.

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a defined benefit, multiple-employer, cost-sharing public employee retirement system. It was established in 1977 and is governed by IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

Indiana Code 36-8-8-9 was amended effective July 1, 1998, allowing firefighters and police officers who elected to convert their benefits from the 1925, 1937 or 1953 funds and were either retired or disabled on or before June 30, 1998, to be entitled to receive benefits under the statutory provisions of the 1977 Fund. The individuals were then considered members of the 1977 Fund for the purpose of paying benefits effective October 1, 1998. Due to this law change, 1,256 individuals became payees of the 1977 Fund.

At June 30, 2008, the number of participating employer units totaled 161 (which include 256 police and fire departments). At January 1, 2007, the 1977 Fund membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	2,265
Terminated employees entitled to benefits but not yet receiving them	180
Active employees: vested and non-vested	12,056
Total	**14,501**
Total covered payroll (dollars in thousands)	**$ 557,644**

A member is required by statute to contribute 6 percent of a first class officer's or firefighter's salary for the term of their employment up to 32 years. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The actuary determines employer contributions, subject to approval by PERF Board of Trustees.

A member who retires at or after the age of 52 with 20 years of service is entitled to 50 percent of the salary of a first class officer, as determined by the employer in the year the 1977 Fund member ended service plus 1 percent for each six month period over 20 years to a maximum of 12 years.

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive $9,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18 or age 23 if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

Each year the PERF Board of Trustees or its designee determines the COLA. To calculate the COLA, PERF determines if there has been an increase or decrease in the consumer price index (United States city average) prepared by the United States Department of Labor by comparing the arithmetic mean of the consumer price index for January, February and March of that year with the arithmetic mean for the same three months of the preceding year. The increase or decrease shall be stated as a percentage of the arithmetic mean for the preceding three-month period. The percentage shall be rounded to the nearest one-tenth of 1 percent and may not exceed 3 percent. A member's or survivor's monthly benefit, beginning with the July payment, shall be increased or decreased by an amount equal to the June payment times the percentage increase or decrease. However, a member's or survivor's monthly benefit may not be increased or decreased by a COLA until July of the year following the year of the first monthly benefit payment to the member or survivor. In computing a member's benefit, the increase or decrease is based only on those years for which the member was eligible for benefit payments under this chapter. A monthly benefit may not be reduced below the amount of the first monthly benefit received by the member or survivor.

(E) Prosecuting Attorneys' Retirement Fund

The Prosecuting Attorneys' Retirement Fund (PARF) was established in 1989 and is governed by IC 33-39-7. PARF is a single employer defined benefit plan and is for individuals who serve as a (1) prosecuting attorney, (2) chief deputy prosecuting attorney or (3) certain other deputy prosecuting attorneys paid by the state of Indiana. These individuals' salaries are paid from the General Fund of the state of Indiana.

At July 1, 2007, the PARF membership consisted of:

Retirees, disabilitants and beneficiaries receiving benefits	20
Terminated employees with accrued creditable service	308
Active employees: vested and non-vested	206
Total	**534**
Total covered payroll (dollars in thousands)	**$ 18,092**

Members contribute 6 percent of their salary. They receive annual interest earnings of 5.5 percent in accordance with statute.

PARF provides retirement, disability and survivor benefits. A participant is entitled to a retirement benefit if the participant is at least 65 years of age (62 years for reduced benefits), has at least eight years of service, has ceased service in a PARF covered position and is not receiving, nor is entitled to receive, any salary from the state for services currently performed except for services rendered as a senior prosecuting attorney under IC 33-39-7-15.

The amount of the annual retirement benefit for a participant who is at least 65 years of age is the product of the highest annual salary that was paid to the participant, multiplied by a percentage based on the participant's years of service. The percentages range from 24 percent for eight years of service to 60 percent for 22 or more years of service. If the participant is at least 62 years of age, the participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent for each month that the participant's age at retirement precedes the participant's 65th birthday.

Retirement benefits payable to a participant are reduced by the defined benefit portion of the pension, if any, that would be payable to the participant from the PERF plan if the participant had retired from the PERF plan on the date the participant's retirement from PARF occurred. Members of this fund are also participating members of the PERF plan. The state of Indiana has elected to pay the 3 percent PERF plan employee contributions.

PARF also provides disability and survivor benefits. A participant who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for five to 10 years of service to 50 percent for 20 or more years of service.

The surviving spouse of a participant who dies is entitled to benefits regardless of the participant's age if the participant was receiving benefits from this fund, serving as a prosecuting attorney or chief deputy prosecuting attorney and had completed at least eight years of service, or met the requirements for disability benefits.

The surviving spouse is entitled to a benefit for life equal to the greater of $7,000 annually or 50 percent of the retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death, with reductions as necessary for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

All disability benefits payable from PARF and benefits payable to a surviving spouse or dependent child(ren) are reduced by the amounts, if any, that would be payable under the PERF plan.

(F) Legislators' Retirement System

The Legislators' Retirement System was established in 1989 by IC 2-3.5-3-2. The retirement system is for certain members of the Indiana General Assembly of the state of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two separate and distinct plans. The Legislators' Defined Benefit Plan (LDB Plan) (IC 2-3.5-4), a single employer defined benefit plan, applies to each member of the Indiana General Assembly who was serving on April 30, 1989, and filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LDC Plan) (IC 2-3.5-5) applies to each member of the Indiana General Assembly who was serving on April 30, 1989, and filed an election under IC 2-3.5-3-1(b), and each member of the Indiana General Assembly who is elected or appointed after April 30, 1989.

At July 1, 2007, the Legislators' Retirement System membership consisted of:

	Defined Benefit Plan	Defined Contribution Plan
Retirees, disabilitants and beneficiaries receiving benefits	45	-
Terminated employees entitled to benefits but not yet receiving them	27	-
Active employees: vested and non-vested	43	211
Total	**115**	**211**
Total covered payroll (dollars in thousands)		**$ 5,474**

Notes to the Financial Statements (continued)– June 30, 2008

Legislators' Defined Benefit Plan

The amount required to actuarially fund participants' retirement benefits, as determined by the PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund in the month of July of each year of the biennium.

The LDB Plan provides retirement, disability and survivor benefits. Members of the Indiana General Assembly who began service after April 30, 1989, are not members of this plan.

A participant is entitled to an unreduced monthly retirement benefit if: the participant is at least 65 years of age and has at least 10 years as a member of the Indiana General Assembly; is at least 55 years of age and whose years of service as a member of the Indiana General Assembly plus years of age equal at least 85; or is at least 60 years of age and has at least 15 years of service. To qualify for a monthly retirement benefit, the member must have terminated service as a member of the Indiana General Assembly, has at least 10 years of service as a member of the Indiana General Assembly and is not receiving, nor is entitled to receive, compensation from the state of Indiana for work in any capacity.

The monthly retirement benefit is the lesser of $40 multiplied by the total years of service completed by the participant as a member of the Indiana General Assembly before November 8, 1989, or the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the Indiana General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the Indiana General Assembly, has at least 10 years of service as a member of the Indiana General Assembly, and is not receiving, nor is entitled to receive, compensation from the state of Indiana for work in any capacity is eligible for early retirement with a reduced benefit. The actual reduction is based on the participant's age and ranges from one-tenth of 1 percent to 56 percent of the monthly retirement as calculated above.

The LDB Plan also provides disability and survivor benefits. A member who has at least five years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the Indiana General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

COLA increases for the LDB plan are equal to the increase for the PERF plan as determined by statute passed by the Indiana General Assembly on an ad hoc basis and are based on date of retirement, and other eligibility factors.

Legislators' Defined Contribution Plan

Each participant in the LDC Plan shall make employee contributions of 5 percent of salary received for services rendered after June 30, 1989. Employer contributions equal to 20 percent of the annual salary received by each participant for services rendered after June 30, 1989, are to be appropriated from the state of Indiana General Fund.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. The investment options include the Consolidated Retirement Investment Fund (CRIF), Bond Fund, Money Market Fund, Small Cap Stock Fund, S&P 500 Stock Index Fund and International Equity Index Fund. Members may make changes to their investment directions daily. Investments of the plan are reported at fair value.

A participant of the LDC Plan who terminates service as a member of the Indiana General Assembly is entitled to withdraw both the employee and employer contributions to the LDC Plan. The amount available for withdrawal is the fair market value of the participant's account on the payment date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, monthly installments as provided in the statute or as an actuarially equivalent monthly annuity as offered by the PERF Board of Trustees and elected by the participant.

If a participant dies while a member of the Indiana General Assembly or after terminating service as a member, but prior to withdrawing from the LDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s). The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the payment date.

A member of the LDB Plan may also be a member of the LDC Plan if the participant is still a member of the Indiana General Assembly or has not withdrawn from the LDC Plan since terminating service as a member of the Indiana General Assembly.

Note 2. Description of Non-Retirement Funds

(A) Pension Relief Fund

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1977 (IC 5-10.3-11). The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

The PR Fund's additions are derived from contributions from the state of Indiana for a portion of cigarette and alcohol taxes, a portion of the state's lottery proceeds, investment income earned and appropriations from the Indiana General Assembly.

Distributions are made from the PR Fund to units of local government on June 30 and September 30 based on a statutory formula. The distribution is based on two separate computations: the "K portion" and the "M portion." The "K portion" is based on the number of retirees and amount of benefits projected to be paid during the current year, and the "M portion" is based on the maximum ad valorem tax levy established for each participating municipality. In addition, distribution from the PR Fund is made to cover death benefits for surviving spouses of members of the 1925, 1937 and 1953 local pension funds in excess of 30 percent of the salary of a first class patrolman or a first class firefighter.

The PR Fund also pays a lump sum line of duty death benefit of $150,000. The benefit is paid to the surviving spouse or, if there is no surviving spouse, to the surviving child(ren) of a member of the 1977 Fund who dies in the line of duty as defined by IC 36-8-8-20. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares.

Units of local government are permitted to defer receiving their earmarked relief payments from the PR Fund. The deferred amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2008, units of local government had investments with a market value of approximately $11.7 million on deposit in the PR Fund. In the fund's financial statements, the earmarked relief payments are reflected as distributions, and the deferred amounts are reflected as additions from units of local government.

(B) Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Special Death Benefit Fund. The fund was established for the purpose of paying a lump sum death benefit of $150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) who dies in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund.

(C) State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program. Under the program a death benefit of $50,000 is to be paid to the surviving spouse or, if there is no surviving spouse, to the surviving child(ren) (to be shared equally) of a state of Indiana employee who dies in the line of duty as defined in the statute.

The statute did not establish a method to fund the program. It stated that: "The state shall provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." Effective with the state's pay period ended October 23, 1993, the state assessed state agencies 0.1 percent of gross pay to fund this program. Because of the size of the fund, collection of the assessment ceased November 1999.

Note 3. Summary of Significant Accounting Policies

Listed below are significant accounting policies adhered to by the PERF Board of Trustees.

(A) Reporting Entity

PERF is an independent body corporate and politic exercising essential government functions. The financial statements presented in this report represent only those funds for which the PERF Board of Trustees has responsibility and are not intended to represent the financial position or results of operations of the state of Indiana or all of the retirement and benefit plans administered by the state. Although PERF is not a state agency, it is a discretely presented component unit of the state of Indiana for financial statement reporting purposes.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF plan);
- Judges' Retirement System;
- State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan (E, G & C Plan);

Notes to the Financial Statements (continued)– June 30, 2008

- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
- Prosecuting Attorneys' Retirement Fund (PARF);
- Legislators' Defined Benefit Plan (LDB Plan);
- Legislators' Defined Contribution Plan (LDC Plan);
- Pension Relief Fund (PR Fund);
- Public Safety Officers' Death Benefit Fund; and
- State Employees' Death Benefit Fund.

See Notes 1 and 2 for descriptions of these funds.

(B) Basis of Accounting

The financial statements of PERF have been prepared using fund accounting in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for established governmental accounting and financial reporting principles. PERF applies all applicable GASB pronouncements in accounting and reporting for its operations.

The PERF Board of Trustees administers seven pension trust funds, two death benefit funds accounted for as other employee benefit trust funds, and an investment trust fund.

These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. These funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting.

The PERF Board of Trustees also has general fund accounts on the Auditor of State's accounting system. These are used to transfer general fund appropriations to certain funds. The accounts themselves are not included in these financial statements, but the appropriations are included as contributions in the funds for which the appropriations were made.

The accrual basis is used for financial statement reporting purposes. Receivables are not maintained on the accounting records but are calculated or estimated for financial statement reporting purposes. Throughout the year the investments are maintained on the accounting records at the net asset value per the custodian bank. The custodian bank maintains records of the detailed holdings and accounts that comprise the net asset value. At fiscal year end, the accounting records and financial statements recognize the investment receivables and payables as described in Investment Unit Trust Accounting (see Section H).

(C) Contributions

Contributions are considered due when the related payroll is issued by the employer. Employers are not required to submit the contributions until the month following the end of the quarter. The estimates for contributions receivable at year-end for each of the retirement funds were determined on the basis that best represents that fund's receivable. The different bases include actual third quarter contributions received during the quarter ended June 30, 2008, actual contributions received in July for workdays in June, or a combination of the two.

(D) Benefits and Distributions

Pension benefits are recognized when due and payable. Initial benefits payments are made after processing the retirement applications. Annuity savings accounts distributions (refunds) are recognized when the distribution applications are due and payable.

(E) Administrative Expenses

An annual budget for the administrative expenses of PERF is reviewed and approved by the PERF Board of Trustees. Administrative expenses are paid from investment earnings.

The PERF plan pays the administrative expenses of all the funds. At June 30, a receivable is established in the PERF plan and a payable in the other funds for the amount due to the PERF plan for the other funds' administrative expenses. Although not legally required, the LDB Plan covers the costs of the LDC Plan.

(F) Deposits and Investments

The Treasurer of State acts as the official custodian of the cash and securities of the funds, except for securities held by banks or trust companies under custodial agreements with PERF. The PERF Board of Trustees contracts with investment counsel, trust companies or banks to assist PERF in its investment program. The PERF Board of Trustees is required to diversify investments in accordance with the prudent investor standards. The investment policy statement adopted by the PERF Board of Trustees and the asset allocation approved by the PERF Board of Trustees contain limits and goals for each type of investment portfolio and specify prohibited transactions. The investment guidelines authorize investments of U.S. Treasury and Agency obligations; U.S. Government Securities; corporate bonds; notes and debentures; common stocks; collective trust funds (CTF), which are regulated by the Office of the Comptroller of the Currency; repurchase agreements secured by U.S. Treasury obligations; mortgage securities; commercial paper; banker's acceptances and other such investments. See Note 6 for more information.

(G) Method Used to Value Investments

GASB Statement Nos. 25 and 50 require that investments of defined benefit plans be reported at fair value. Short-term investments are reported at market value when available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the official closing price at current exchange rates. CTFs' fair values are determined by the fair value per share of the pool's underlying portfolio as provided by the trustee. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Values for limited partnership interests are those estimates most recently provided by the general manager, plus or minus cash flows transacted since the valuation date.

(H) Investment Unit Trust Accounting

In order to provide a consolidated rate of return for the pension funds and effectively invest in a diversified manner, the PERF Board of Trustees has directed that investment unit trust accounting be implemented and that the investments be commingled as allowed by state statutes. Unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The custodian bank prepares consolidated bank statements and fund statements that show the unit trust accounting activity. Investment earnings and appreciation increase the per unit value of all participating funds. Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a monthly basis using the pro rata fair value share at month end.

The CRIF is an internal investment pool as defined by the GASB. It is comprised of investment bank accounts that are maintained individually for each of the contracted investment managers. The CRIF includes all investments and transactions of the pension funds, except for the PERF plan members' annuity savings accounts directed outside the guaranteed fund and a short-term investment account. The LDC Plan also has investment options other than the CRIF. The non-retirement funds administered by PERF are not included in the CRIF.

In accordance with GASB criteria for internal investment pools, the assets and liabilities of the CRIF are allocated pro rata to each of the retirement funds within the pool. This includes cash equivalents, securities lending collateral, accounts receivable and payable to brokers, accrued interest and the investment holdings. The financial statements recognize the investment purchases and sales on the trade date as required by the GASB.

The PERF plan members' annuity savings accounts directed to the S&P 500 Stock Index Fund are commingled and included with those portfolios maintained for the PR Fund. The unit trust method is used to separately account for the transactions and balances owned by the PERF plan members' annuity savings accounts and the PR Fund.

(I) Investment and Contract Sales Receivables and Investments Payable

Investment and contract sales receivables and investments payable consists primarily of forward currency contracts, spot currency contracts, and receivables or payables for securities purchased or sold but not settled as of June 30, 2008.

(J) Other Investments

Other investments include warrants, overdrafts and investment in shares of limited liability partnerships.

(K) Building

PERF owns the building in which it resides at 143 W. Market Street. The building is depreciated over 20 years using the straight-line method. At June 30, 2008 the accumulated depreciation on the building was approximately $565,000.

(L) Equipment

Equipment with a cost of $20,000 or more is capitalized at its original cost and depreciation is recognized in administrative expenses. Depreciation is computed on the straight-line method over the estimated useful life of the assets. Accumulated depreciation as of June 30, 2008, was approximately $36,000. No new equipment was capitalized during the year.

(M) Inventories

Inventories of consumable supplies are not recognized on the Statement of Fiduciary Net Assets since they are considered immaterial. Purchases of consumable supplies are recognized as expenses at the time of purchase.

(N) Reserves and Designations

Listed below are the legally required reserves and other designations of fund equity.

1. Member Reserve – The member reserve represents member contributions made by or on behalf of the members plus any interest distributions, less amounts distributed or transferred to the benefits in force reserve for retirement, dis-

Notes to the Financial Statements (continued)– June 30, 2008

ability or other benefits. For the PERF plan, this reserve is the members' annuity savings accounts. Member reserves are fully funded.

2. Employer Reserve – This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the benefits in force reserve of the actuarial pension cost. The funding status of the employer reserve is outlined in the Schedule of Funding Progress in the accompanying Required Supplementary Information.

3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of members who died in services. The accumulated contributions of the members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement or disability. This reserve is fully funded based on the latest actuarial valuation.

4. Undistributed Investment Income Reserve – This reserve is credited with all investment earnings. Interest transfers are made periodically during the year to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the PERF Board of Trustees, statutes or the actual earning rates of the investment options, depending on the statutes of the individual funds. The budget for the next fiscal year is transferred to the administrative expense designation. Any remaining balance (positive or negative) is transferred to the employer reserve and allocated to the employers of the fund.

(dollars in thousands)

Retirement Funds	Member Reserve	Employer Reserve	Benefits in Force	Undistributed Income
PERF	$ 2,694,331	$ 5,269,434	$ 3,975,053	$ -
Judges' Retirement System	22,243	57,565	139,618	-
E, G & C Plan	4,315	31,125	25,636	-
1977 Fund	522,594	2,019,120	606,682	-
PARF	17,428	2,918	4,267	-
Legislators' Retirement System –				
LDB plan	N/A	2,470	2,204	-
LDC plan	24,298	N/A	N/A	-

5. Administrative Expense – This designation represents the following fiscal year's administrative budget in the PERF plan, which initially pays administrative expenses. The budget for the fiscal year ending June 30, 2009, is approximately $134.7 million.

(O) Compensated Absences

PERF's full-time employees are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, 10 and 20 years of employment with PERF and/or the state of Indiana. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and the salary related payments that are expected to be liquidated are reported as Compensated Absences Liability.

(P) PERF Annual Pension Cost and Net Pension Obligation

PERF is a discretely presented component unit of the state of Indiana, and PERF employees are combined with the state of Indiana for actuarial purposes.

The Annual Pension Cost and Net Pension Obligations, and the historical trend information for the state of Indiana PERF plan are as follows:

Annual Pension Cost and Net Pension Obligation (Asset)

(dollars in thousands)

Annual required contribution	$96,430
Interest on net pension obligation	(4,393)
Adjustment to annual required contribution	5,006
Annual pension cost	97,043
Contributions made	89,801
Increase (decrease) in net pension obligation	7,242
Net pension obligation, beginning of year	(60,591)
Net pension obligation, end of year	**$(53,349)**
Contribution rate	**6.1%**

Three-Year Trend Information

(dollars in thousands)

Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
July 1, 2007	$97,043	92.5%	$(53,349)
July 1, 2006	88,720	82.2	(60,591)
July 1, 2005	70,498	89.0	(76,421)

(Q) Transfers to and from Teachers' Retirement Fund
If a member was last employed in a PERF plan covered position, PERF will use the member's Teachers' Retirement Fund (TRF) service and annuity savings account balance at the time of retirement to calculate the member's retirement benefit. Likewise, if a member was last employed in a TRF covered position, TRF will use the member's PERF plan service and annuity savings account balance. The respective fund sets up a receivable for both the annuity savings account and the calculated reserve for the pension for those members retiring from their fund with service in the other fund. The receivable is included as a line item in the receivable section of the Statement of Fiduciary Net Assets. Likewise, a payable is set up for the amount due to the other fund, which is located in the liabilities section of the Statement of Fiduciary Net Assets.

(R) Adoption of New Accounting Standard
In May 2007, the GASB issued Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27. The provisions of Statement No. 50 allow the financial reporting of pensions to more closely line up with those of other post-employment benefits and to enhance note disclosures or required supplementary information. PERF has implemented the provisions of GASB Statement No. 50 for the fiscal year ending June 30, 2008.

Note 4. Contributions Required and Contributions Made

(A) Public Employees' Retirement Fund
The state of Indiana and any political subdivision that elects to participate in the PERF plan is obligated by statute to make contributions to the plan. The required contributions are determined by the PERF Board of Trustees based on actuarial investigation and valuation. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost) and the amortization of unfunded liabilities.

The actuarial cost method used in the valuation is the entry age normal cost method in accordance with IC 5-10.2-2-9. Under this method as supplied to the PERF plan, a normal cost is determined for each active participant which is the level percentage of compensation needed as an annual contribution from entry age to retirement age to fund projected benefits.

The unfunded actuarial accrued liability on any valuation date is the accumulated value of such normal costs for each non-retired participant from entry date to the valuation date less the value of assets for non-retired members at that date. This unfunded actuarial liability is compared to the expected unfunded actuarial accrued liability, which is determined as the prior valuation unfunded liability reduced by sched-uled amortization payments and increased by interest at the actuarially assumed rate. Any changes between the actual actuarial accrued liability and expected actuarial accrued liability due to changes in benefit levels (excluding COLAs), changes in actuarial assumptions, and actuarial experience gains or losses are amortized over a 30-year period.

The actuary calculates actuarial assets using an asset smoothing method for the determination of the employer actuarially required contribution. Under the smoothing method, actuarial assets are equal to 75 percent of the expected actuarial assets plus 25 percent of the market value of assets. The expected actuarial value of assets is equal to the preceding year's actuarial assets adjusted for non-invest-ment related transactions and increased by interest at the actuarially assumed rate.

The required contribution levels are determined under the assumption that a 1.5 percent COLA will be granted in each future year, applying not only to then current retirees, but also to active employees who have yet to retire. The full effect of a 1.5 percent annual COLA is handled on a pre-funded basis.

(B) Judges' Retirement System
Employer contribution requirements for the Judges' Retirement System are not actuarially determined but are established by statute (IC 33-38-6-17) and appropriations. There is an appropriation from the state of Indiana General Fund for each biennium to the Judges' Retirement System based on the recommendation of the actuary.

(C) State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan
The funding policy for the E,G & C Plan provides for biennial appropriations authorized by the Indiana General Assembly which, when combined with anticipated member contributions, are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability over 30 years and prevent the state's unfunded accrued liability from increasing. State of Indiana statute defines the funding policy. Effective July 1, 2007, member contributions, defined by statute as 4 percent of annual salary, are remitted to the fund upon each payroll.

The significant actuarial assumptions used to determine contribution requirements include: rate of return on the investment of present and future assets of 7.25 percent per year, compounded annually; projected salary increases of 4.5 percent per year, compounded annually; and assets valued by smoothed market value basis.

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The funding policy for the 1977 Fund is mandated by statute that requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates rather than actual payroll. The member contribution rate is not actuarially determined but was established by statute at 6 percent of the salary of a first class officer or firefighter.

The employer contribution rate is actuarially determined using the entry age normal cost method. The total required to actuarially fund normal cost is reduced by the total estimated member contributions. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. All participating employers are required to contribute 21 percent of the salary of a first class officer or firefighter during the calendar year.

The significant actuarial assumptions used to determine the actuarially required employer contribution for the 1977 Fund include: investment earnings of 7.25 percent per year, compounded annually; salary increases of 4 percent per year; benefit increases of 2.75 percent per year while the benefit is in payment status; and no recoveries from disabilities.

The annual required contributions and percentage contributed amounts are as follows:

Year Ended December 31	Annual Required Contributions (dollars in thousands)	Percentage Contributed
2005	$ 97,286	111.8%
2006	102,964	139.0[1]
2007	108,741	112.7

[1] *Prior year percentage has been corrected.*

(E) Legislators' Retirement System

For the LDC Plan, each participant is required to contribute 5 percent of annual salary. In addition, the state of Indiana is required to contribute 20 percent of the member's annual salary on behalf of the participant. For the LDB Plan, the amount required to actuarially fund participants' retirement benefits, as determined by the PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund.

(F) Prosecuting Attorneys' Retirement Fund

The amount required to actuarially fund the PARF participants' retirement benefits, as determined by the PERF Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund. Members contribute 6 percent of the state paid portion of their annual salary.

(G) Other Contribution Information

Beginning with the July 1, 2007 actuarial valuations for the PERF plan (for the State of Indiana employer), E,G & C Plan, and PARF, smoothing rules were applied to the employer contribution rate to help reduce wide variations in the employer contribution rates from year to year. Beginning with the January 1, 2007 actuarial valuation for the 1977 Fund, the same smoothing rules were applied.

Note 5. Funded Status and Funding Progress – Pension Plans

The funded status of each plan as of July 1, 2007, the most recent actuarial valuation date except 1977 Fund which is as of January 1, 2007, is as follows:

Retirement Plans (dollars in thousands)	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
PERF plan	$12,220,934	$12,439,798	$218,864	98.2%	$4,385,676	5.0%
Judges' Retirement System	211,747	283,995	72,248	74.6	29,712	243.2
E, G & C Plan	57,414	74,451	17,037	77.1	17,715	96.2
1977 Fund	2,860,512	2,649,525	(210,987)	108.0	557,644	(37.8)
PARF	23,815	32,052	8,237	74.3	18,092	45.5
LDB plan	5,035	5,169	134	97.4	N/A	N/A

Actuarial valuations involve estimates of the value of reported amounts, such as salaries and credited service, and assumptions about the probability of events far into the future, such as employment terminations, deaths, disabilities, and retirements. Because of these estimates and assumptions, actuarially determined amounts are subject to periodic review and potential revision depending on results as compared to actual experience and reasonably anticipated future experience.

If a defined benefit pension plan is being funded based on reasonable actuarial funding methods and reasonable actuarial assumptions, then the actuarial value of plan assets and the actuarial accrued liability for benefits should, over time, approach equality. The required Schedule of Funding Progress immediately following the Notes to the Financial Statements presents multi-year trend information which should illustrate this trend. However it should be noted that, from year-to-year, plan enhancements and actual plan experience different from that assumed will make year-to-year comparisons variable.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The calculations upon which an actuarial valuation are determined are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of cost sharing between the employer and the plan members.

Actuarial calculations reflect a long term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Additional information as of the latest actuarial valuation follows:

	PERF plan	Judges' Retirement System	E, G & C Plan
Valuation Date	July 1, 2007	July 1, 2007	July 1, 2007
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period
Remaining Amortization Period	30 Years	29 Years	29 Years
Asset Valuation Method	75% of Expected Actuarial Value Plus 25% of Market Value	Smoothed Market Value Basis	Smoothed Market Value Basis
Actuarial Assumptions:			
Investment Rate of Return	7.25%	7.25%	7.25%
Projected Salary Increases	4%	4%	4.5%
Post-retirement Benefit Increases	N/A	4%	N/A
Cost of Living Increases	1.5%	N/A	1.5%

	1977 Fund	PARF	LDB Plan
Valuation Date	January 1, 2007	July 1, 2007	July 1, 2007
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Accrued Benefit (Unit Credit)
Amortization Method	Level Dollar, Open Amortization Period	Level Dollar, Closed Amortization Period	Level Dollar, Closed Amortization Period
Remaining Amortization Period	30 Years	29 Years	15 Years
Asset Valuation Method	Smoothed Market Value Basis	Smoothed Market Value Basis	Smoothed Market Value Basis
Actuarial Assumptions:			
Investment Rate of Return	7.25%	7.25%	7.25%
Projected Salary Increases	4%	4%	3%
Post-retirement Benefit Increases	N/A	N/A	N/A
Cost of Living Increases	2.75%	N/A	1.5%

Note 6. Deposits and Investments

Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the PERF Board of Trustees and govern all its investments. The primary governing statutory provision is that the PERF Board of Trustees must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The PERF Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the PERF Board of Trustees has broad authority to invest the assets of the plans. The PERF Board of Trustees utilizes external investment managers, each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the PERF Board of Trustees.

The PERF Board of Trustees approved a new asset allocation for the CRIF on August 18, 2006. This asset allocation remained unchanged through June 30, 2008.

Asset Classes	Target Norm	Allowable Ranges
Equities - Domestic	40%	35% - 50%
Equities - International	15	10 - 20
Equities - Global	10	5 - 15
Fixed Income - Core	15	10 - 20
Fixed Income - TIPS	5	0 - 10
Alternatives – Private Equity	8	0 - 10
Alternatives – Real Estate	3	0 - 5
Alternatives – Commodities	2	0 - 5
Alternatives – Absolute Return	2	0 - 5

Investments in the PERF annuity savings accounts and the LDC Plan are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The PR Fund is invested to a target of 70 percent Fixed Income – Core and 30 percent Equities – Domestic. The Special Death Benefit Funds are 100 percent fixed income.

The following investment types, unless otherwise approved by the PERF Board of Trustees, are prohibited by the PERF investment policy statement (PERF's IPS) as adopted by the PERF Board of Trustees.

- Short sales of any kind.
- Repurchase agreements that may create any kind of leverage in the portfolio.
- Purchases of letter or restricted stock.
- Buying or selling on margin.
- Purchases of futures and options.
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment or links to indices representing investments.
- Purchases of interest only or principal only collateralized mortgage obligations.
- Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503.
- Purchases of inverse floaters.

Custodial Credit Risk

Custodial credit risk is the risk that PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counterparty fails. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty or the counterparty trust department's agent, but not in PERF's name.

There was no custodial credit risk for investments including investments related to securities lending collateral as of June 30, 2008. Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5, all fund investments are held by banks under custodial agreements in the fund's name, and all custodians are domiciled in the United States and approved by the Indiana Department of Financial Institutions to act in a fiduciary capacity and manage custodial accounts in Indiana. While PERF's Investment Policy Statement does not specify custodial risk, statutes provide certain custodial requirements.

Deposit Risks

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to $100,000 each. Deposits in the demand accounts held in excess of $100,000 are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with the investment custodian are insured up to $100,000.

Notes to the Financial Statements (continued) – June 30, 2008

Cash Deposits
(dollars in thousands)

	Total	JPMorgan Chase Bank	National City Bank
Demand deposit account – carrying value	**$ 5,499.9**	$ 1,482.2	$ 4,017.7
Demand deposit account – bank balance	**27,989.8**	23,459.5	4,530.3
Held with Treasurer of State	**11,054.2**	-	-
Held with investment custodian:			
Cash	**322.6**	-	-

Credit Risk
PERF's IPS sets credit quality rating guidelines and benchmark indices for each of its sub-asset classes and as outlined in each portfolio manager contract. The guidelines and benchmarks are as follows: the fixed income portfolio (excluding TIPS) must maintain an average credit quality rating of at least A1 (Moody's) or the equivalent; securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the PERF Board of Trustees; the benchmark for the fixed income portfolio is the Lehman Brothers Aggregate Bond Index; and the Treasury Inflation Protection Securities (TIPS) portfolio must substantially match the quality of its benchmark, the Lehman Brothers TIPS US Index. The quality rating of investments in debt securities as described by the Nationally Recognized Statistical Rating Organization (NRSRO) Standard and Poor's at June 30, 2008 is as follows:

Quality Rating (dollars in millions)	Fair Value	% of Portfolio
AAA	$ 2,647.7	60.7%
AA	128.5	3.0
A	231.0	5.3
A-1	161.5	3.7
BBB	277.1	6.4
BB	69.8	1.6
B	45.4	1.0
CCC	11.3	0.3
Not Rated	782.1	18.0
Total	**$ 4,354.4**	**100%**

The credit risk schedule includes debt securities, short-term money market funds, bond mutual funds and bond commingled funds. Of the total fair value reported, approximately $2.1 billion (47.9 percent) is AAA rated U.S. Treasury, U.S. Agency or U.S. Agency Mortgage Backed Securities. The remaining balance of approximately $2.3 billion (52.1 percent) consists of corporate debt, short-term custodial money market funds, commingled or mutual funds, and asset-backed and mortgage-backed securities of various credit quality ratings.

Of the $782.1 million not rated by Standard & Poor's, approximately $81.3 million (10.4 percent of Not Rated), are rated by Moody's (another NRSRO) as follows: approximately $76.4 million are rated A3 or better, approximately $4.2 million are rated B3 through Baa2 and the balance of approximately $0.7 million are rated Ca through Caa1. Included in the Not Rated category are approximately $632.5 million (80.9 percent of Not Rated) in money market funds, mutual funds or commingled funds. The remaining balance of approximately $68.3 million (8.7 percent) is not rated by either Moody's or Standard and Poor's.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. PERF's IPS limits the purchase of securities of any one issuer, with the exception of the U.S. Government and its agencies, to an initial cost of 5 percent of the market value of an investment manager's portfolio. Through capital appreciation, no such holding should exceed 7.5 percent of the market value of the total holdings of such investment manager's portfolio.

For investment managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer, with the exception of the U.S. Government and its agencies, is limited to 7.5 percent of the investment manager's portfolio based upon initial cost and no more than 15 percent of the market value of the portfolio as a result of capital appreciation.

At June 30, 2008, there was no concentration of credit risk for the CRIF or separately managed fund portfolios.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price's sensitivity to a 100 basis point change in interest rates.

Notes to the Financial Statements (continued)– June 30, 2008

PERF's IPS sets duration guidelines for the fixed income investment portfolio that are linked directly, or indirectly, to the benchmark indices for each of its sub-asset classes and as outlined in each investment manager portfolio contract. Several sub-asset classes require that duration of the portfolio may not vary more than 20 percent above or below the duration of the applicable benchmark index.

Duration information is provided below (dollars in millions):

Investment Type	Net Asset Fair Value	% of Net Asset Fair Value	Duration
Short-Term Investment Fund	$ 492.1	10.9%	0.00
Government & Agency Obligations	1,173.8	25.9	7.00
Residential & Commercial Mortgage-Backed Securities	1,408.4	31.1	3.95
Corporate Bonds	789.6	17.5	5.57
Asset-Backed	171.7	3.8	1.14
Municipal Securities	1.0	0.0	0.29
Other[1]	490.8	10.8	2.86
Total Net Asset Fair Value	**$ 4,527.4**	**100%**	**4.37**

[1] *Includes mutual funds, collective trusts, and derivatives.*

PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Some derivative products, identified in the derivatives financial instruments section, are also sensitive to interest rate risk. Debt securities, debt securities mutual funds and commingled funds, and short-term cash and cash-equivalents represent the portions of the portfolio most sensitive to interest rate risk and are included in the duration information.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF's foreign currency exposure is focused primarily in international and global equity holdings. Futures currency contracts are reported in the following schedule at gross exposure value. Forward currency contracts values included both receivables and payables.

PERF's IPS refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub-asset class or as outlined in each portfolio manager contract. Certain fixed securities portfolio sub-asset classes allow for up to 20 percent investment in non-U.S. dollar government and corporate securities. The equity portfolio sub-asset classes have specific guidelines for international equities and global equity investments. Certain sub-asset classes do not allow emerging markets investments while some allow up to 20 percent of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows:

Currency *(dollars in millions)*	Equity Securities	Debt Securities	Contracts, Currencies, or Money Market Securities	Total Fair Value	% of Foreign Currency	% of Total Investments (USD)
Euro	$ 870.8	$ 13.4	$ (34.8)	$ 849.4	25.4%	5.6%
Japanese Yen	510.0	–	32.0	542.0	16.2	3.6
Pound Sterling	504.1	–	(13.3)	490.8	14.6	3.2
Australian Dollar	164.9	–	11.7	176.6	5.3	1.2
Swiss Franc	147.7	–	(12.8)	134.9	4.0	0.9
Hong Kong Dollar	126.7	–	7.4	134.1	4.0	0.9
Other	331.3	620.6	69.2	1,021.1	30.5	6.7
Total	**$ 2,655.5**	**$ 634.0**	**$ 59.4**	**$ 3,348.9**	**100%**	**22.1%**

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities. The PERF Board of Trustees requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent. No more than 40 percent of CRIF's total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100 percent indemnification to the PERF Board of Trustees and the CRIF against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold by the PERF Board of Trustees unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments are subject to the investment guidelines specified by PERF's IPS. It states that the maximum weighted average days to maturity may not exceed 60. The average term to maturity of the cash collateral portfolio was approximately 11 days at June 30, 2008. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

The fair value of securities lent for cash collateral at June 30, 2008 *(dollars in millions)*:

Investment Type	Loan Value
Government Obligation	$ 656.1
Corporate Bonds	48.3
Equities	1,332.4
Total Fair Value	**$ 2,036.8**

The credit quality of the cash collateral investments as described by Standard and Poor's at June 30, 2008 *(dollars in millions)*:

Investments Quality Rating	Fair Value	Percent of Portfolio
A-1 and A-1+	$ 1,887.1	92.5%
A3	31.0	1.5
Not Rated	122.6	6.0
Total	**$ 2,040.7**	**100%**

The majority of A-1 and A-1+ collateral investments were medium-term corporate bonds. The majority of the Not Rated collateral investments are guaranteed investment contracts.

At June 30, 2008, PERF had loaned approximately $319 million U.S. Treasury and government agency obligations for securities collateral. The securities collateral value was approximately $325.4 million which represented 102 percent coverage. At fiscal year end, PERF has no credit risk exposure to borrowers because the amount it owes to the borrowers exceeds the amount owed by the borrowers.

Derivative Financial Instruments

PERF's IPS authorized investments in the absolute return allocation which may include derivatives. The fair value of investments in absolute return investments was approximately $362 million at June 30, 2008. PERF's directly held investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or buy a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the PERF Board of Trustees, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), treasury inflation protected securities (TIPS) and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign equity stock and debt security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2008, PERF's investments included the following currency forwards balances (dollars in millions):

Forward Currency Contract Receivables	$275.6
Forward Currency Contract Payables	$276.5

PERF's debt securities managers invest in CMOs/REMICs to improve the yield or adjust the duration of the debt securities portfolio. As of June 30, 2008, the carrying value of the PERF's CMO/REMIC holdings was approximately $211.7 million.

TIPS are used by PERF's debt securities managers to provide a real return against inflation as measured by the Consumer Price Index. As of June 30, 2008, the carrying value of the PERF's TIPS holdings was approximately $1 billion.

PERF's investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, PERF's investment managers use futures contracts to adjust the portfolio risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. Futures contracts may be used for the purpose of investing cash flows or modifying duration but in no event may leverage be created by any individual security or combination of securities. At June 30, 2008, PERF's notional value in these futures totaled approximately $674 million.

Note 7. Long-Term Commitments for Alternative Investments

PERF had entered into long term commitments for funding alternative investments in private equity and real estate of approximately $2.3 billion as of June 30, 2008. The fund has disbursed approximately $655 million toward the commitments as of June 30, 2008. The expected funding dates for these commitments extend through 2028. These amounts include four Euro-denominated commitments to limited liability partnerships converted to United States dollars at the closing exchange rate as of June 30, 2008.

As of June 30, 2008, two commitments of approximately $65 million were approved by the PERF Board of Trustees. Of those commitments, one agreement totaling $35 million was signed in July 2008.

Note 8. Risk Management

PERF is exposed to various risks of loss. These losses include damage to property owned, personal injury or property damage liabilities incurred by an officer, agent or employee, malfeasance and theft by employees, certain employee health and death benefits, and unemployment and worker's compensation costs for employees.

PERF's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead it records as an expense any loss as the liability is incurred or replacement items are purchased. PERF does carry general liability, property, and business interruption insurance, as well as a blanket bond and excess coverage on specific employees. The PERF Board of Trustees administers the state of Indiana's risk financing activity for the state employees' death benefits.

Note 9. Required and Other Supplementary Information

The historical trend information designed to provide information about PERF's progress in accumulating sufficient assets to pay benefits when due is Required Supplementary Information. The schedules are included immediately following the Notes to the Financial Statements. Other Supplementary Information is presented for the purpose of additional analysis and is not a required part of the Financial Statements.

Note 10. Subsequent Legislative Changes

Below is a summary of significant legislative changes that are effective after June 30, 2008.

(A) Public Employees' Retirement Fund

Effective July 1, 2008, members who have at least one year of service in both PERF plan and TRF have the option of choosing from which of these funds they would like to retire.

Effective July 1, 2008, for some members retired under the disability retirement provision, the minimum payment amount was increased.

Effective January 1, 2009, members who retired after December 31, 1999, will receive a 2 percent COLA. Members who retired before January 1, 2000, will receive a 2.5 percent COLA. As of December 1, 2008, a 13th check between the amount of $50 and $225 is due to certain participants, survivors and beneficiaries of the PERF plan. The COLA and the 13th checks are determined by statute passed by the Indiana General Assembly on an ad hoc basis and are based on date of retirement and other eligibility factors.

Effective January 1, 2009, a member of the PERF plan who is vested, has terminated their employment and has not performed any service in a PERF plan covered position for 90 days, may withdraw their annuity savings account. A vested member who withdraws their annuity savings account upon becoming eligible for retirement will receive a benefit equal to the pension provided by employer contributions only.

(B) Judges' Retirement System

Effective January 1, 2009, a 2 percent COLA increase will be effective for members of the 1985 Judges' Retirement System. The COLA increases for the 1985 Judges' Retirement System are determined by statute.

(C) State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

Effective July 1, 2008, the mandatory retirement age was changed from 60 years to 65 years.

Effective July 1, 2008, an officer who becomes a participant after the age of 50 must retire on the first day of the month following their 65th birthday or the first day of the month following completion of 15 years, whichever is earlier.

Members of E, G & C Plan who are qualified to receive an unreduced retirement have the option to elect to participate in a Deferred Retirement Option Plan Program if they meet certain requirements. The annual retirement plan allowance is capped at 75 percent of a participant's annual salary.

(D) 1977 Police Officers' and Firefighters' Pension and Disability Fund

Effective July 1, 2008, the amount of the additional death benefit for members of the 1977 Fund is increased from $9,000 to $12,000.

(E) Legislators' Defined Contribution Plan

Effective January 1, 2009, employer contributions to the LDC Plan will be determined by multiplying the participant's salary for that year by a percentage determined by the PERF Board of Trustees.

(F) Pension Relief Fund

Effective 2009 and each year thereafter, the Indiana General Assembly shall distribute from the PR Fund to each unit of local government the total amount of pension, disability, and survivor benefits from the 1925 police pension fund, the 1937 firefighters' fund and the 1953 police pension fund to be made by the unit in the calendar year, as estimated by the state board, after subtracting any distributions to the unit from the public deposit insurance fund that will be used for benefit payment.

Required Supplementary Information: *Schedule of Funding Progress*

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll (b-a)/c)
Public Employees' Retirement Fund						
7/1/2002[1]	$ 8,994,854	$ 9,066,132	$ 71,278	99.2%	$ 3,785,242	1.9%
7/1/2003[1]	9,293,952	9,034,573	(259,379)	102.9	3,952,230	(6.6)
7/1/2004[1]	9,853,976	9,844,353	(9,623)	100.1	4,198,942	(0.2)
7/1/2005[1]	10,471,937	10,858,322	386,385	96.4	4,318,450	8.9
7/1/2006[1]	11,177,971	11,450,928	272,957	97.6	4,322,180	6.3
7/1/2007[1]	12,220,934	12,439,798	218,864	98.2	4,385,676	5.0
Judges' Retirement System						
7/1/2002	121,155	188,434	67,279	64.3	25,805	260.7
7/1/2003	126,152	206,846	80,694	61.0	25,400	317.7
7/1/2004	135,798	209,992	74,194	64.7	25,693	288.8
7/1/2005	151,003	272,855	121,852	55.3	32,231	378.1
7/1/2006	178,276	272,997	94,721	65.3	34,065	278.1
7/1/2007	211,747	283,995	72,248	74.6	29,712	243.2
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan						
7/1/2002	37,360	55,884	18,524	66.9	12,654	146.4
7/1/2003	37,286	52,006	14,720	71.7	11,944	123.2
7/1/2004	38,772	50,010	11,238	77.5	10,209	110.1
7/1/2005	41,663	59,964	18,301	69.5	13,223	138.4
7/1/2006	48,496	64,765	16,269	74.9	14,892	109.2
7/1/2007	57,414	74,451	17,037	77.1	17,715	96.2
1977 Police Officers' and Firefighters' Pension and Disability Fund						
1/1/2002	1,615,245	1,808,754	193,509	89.3	396,246	48.8
1/1/2003	1,660,445	1,766,846	106,401	94.0	432,954	24.6
1/1/2004	1,797,124	1,875,518	78,394	95.8	469,750	16.7
1/1/2005	1,976,905	2,064,171	87,266	95.8	493,707	17.7
1/1/2006	2,347,986	2,415,053	67,067	97.2	522,227	12.8
1/1/2007	2,860,512	2,649,525	(210,987)	108.0	557,644	(37.8)
Prosecuting Attorneys' Retirement Fund						
7/1/2002	11,957	22,386	10,429	53.4	14,438	72.2
7/1/2003	12,758	15,685	2,927	81.3	13,159	22.2
7/1/2004	14,655	22,588	7,933	64.9	15,149	52.4
7/1/2005	16,876	25,744	8,868	65.6	16,659	53.2
7/1/2006	20,053	29,184	9,131	68.7	19,225	47.5
7/1/2007	23,815	32,052	8,237	74.3	18,092	45.5
Legislators' Retirement System - Defined Benefit Plan						
7/1/2002	4,446	5,503	1,057	80.8	N/A[2]	N/A[2]
7/1/2003	4,200	4,948	748	84.9	N/A[2]	N/A[2]
7/1/2004	4,206	4,856	650	86.6	N/A[2]	N/A[2]
7/1/2005	4,339	4,999	660	86.8	N/A[2]	N/A[2]
7/1/2006	4,721	5,232	511	90.2	N/A[2]	N/A[2]
7/1/2007	5,035	5,169	134	97.4	N/A[2]	N/A[2]

[1] Plan changes and/or changes in actuarial assumptions.
[2] Benefit formula is primarily based on service, rather than compensation.

See Note 5. Funded Status and Funding Progress for the actuarial methods and assumptions used in preparing this schedule.

Required Supplementary Information:
Schedule of Employer Contributions

(dollars in thousands)

Public Employees' Retirement Fund

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	$217,077	98.3%
2004	166,574	141.0
2005	202,631	101.8
2006	249,669	92.3
2007	278,190	93.5
2008	290,622	104.6

Judges' Retirement System

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	$9,561	138.9%
2004	10,488	123.6
2005	10,064	134.5
2006	14,932	90.7
2007	12,249	119.7
2008	10,028	158.8

State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	$2,324	84.0%
2004	2,190	96.8
2005	1,867	116.0
2006	2,710	92.2
2007	3,128	107.4
2008	3,676	132.1

1977 Police Officers' and Firefighters' Pension and Disability Fund

Year Ended December 31	Annual Required Contributions	Percentage Contributed
2002	$98,687	87.1%
2003	87,253	108.9
2004	92,833	110.8
2005	97,286	111.8
2006[1]	102,964	139.0[1]
2007	108,741	112.7

Prosecuting Attorneys' Retirement Fund

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	$1,129	39.5%
2004	144	647.9
2005	889	108.1
2006	952	17.9
2007	1,044	18.2
2008	1,040	16.3

Legislators' Retirement System Defined Benefit Plan

Year Ended June 30	Annual Required Contributions	Percentage Contributed
2003	$234	79.9%
2004	95	216.8
2005	89	231.5
2006	91	109.9
2007	120	83.3
2008	66	151.5

[1] *Prior year percentage has been corrected.*

See accompanying Note 5 to the Financial Statement.

Other Supplementary Information:
Administrative Expenses – Year Ended June 30, 2008

(dollars in thousands)

Personal Services:	
Salaries and Wages	$ 7,416
Employee Benefits	2,628
Supplemental Services	511
Total Personal Services	**10,555**
Contractual and Professional Services:	
Actuarial	150
Legal	435
Consultants	3,792
Contractual Services	169
Information System Development Services	6,314
Total Contractual and Professional Services	**10,860**
Communications:	
Telephone	109
Postage	654
Printing	332
Other	28
Total Communications	**1,123**
Miscellaneous:	
Data Processing	429
Travel	185
Training	97
Supplies & Maintenance	318
Dues & Subscriptions	59
Offices Supplies	72
Office Equipment	192
Operating Expenses and Other Expenses	1,073
Total Miscellaneous	**2,425**
Total Administrative Expenses	**$24,963**
Allocation of Administrative Expenses:	
Public Employees' Retirement Fund	$21,183
Judges' Retirement System	244
State Excise Police, Gaming Agent, Gaming Control Officer and Conservation Enforcement Officers' Retirement Plan	83
1977 Police Officers' and Firefighters' Pension & Disability Fund	3,156
Prosecuting Attorneys' Retirement Fund	36
Legislators' Retirement System - Defined Benefit Plan	56
Public Safety Officers' Special Death Benefit Fund	2
State Employees' Death Benefit Fund	6
Pension Relief Fund	197
Total Administrative Expenses Allocation	**$ 24,963**

Other Supplementary Information:
Investment Expenses – Year Ended June 30, 2008

(dollars in thousands)

Investment Expenses

Custodial and Consulting		
J. P. Morgan Investment Mgmt Inc.	Custodial Fees	$ 447
Strategic Investment Solutions	Investment Consulting	308
Mercer Investment Consulting	Investment Consulting	200
Plexus Group, Inc.	Investment Analysis	16
RickMetrics Group	Investment Consulting	14
Total Custodial and Consulting		**$ 985**
Domestic Equity		
Barclays Global Investors	Equity - Large Cap Core	$ 9,060
Turner Investment Partners	Equity - Large Cap Growth	3,154
Brandes Investment Partners	Equity - Mid Cap Value	2,386
Wells Capital Management	Equity - Mid Cap Growth	2,199
Numeric Investors, L.P.	Equity - Small Cap Value	1,978
Osprey Partners Investment Management, LLC	Equity - Small and Large Cap Value	1,844
Times Square Capital Management	Equity - Small Cap Growth	1,519
Sands Capital Management	Equity - Large Cap Growth	1,031
Jacobs Levy Equity Management, Inc.	Equity - Small Cap Growth	1,083
Hotchkis & Wiley Capital Management, LLC	Equity - Large Cap Value	891
Artisan	Equity - Mid Cap Value	458
T Rowe Price Structured	Equity - Large Cap Core	312
Russell Implementation Services	Equity - Large Cap Core	122
Rhumbline Advisers	Equity - Large Cap Core	84
State Street Global Advisors	Equity - Small and Large Cap Value and Large Cap Core	49
Total Domestic Equity		**$ 26,170**
International Equity		
Baille Gifford and Company	Equity - International Growth	$ 3,944
Mondrian Investment Partners Limited	Equity - International Value	1,875
Barclays Global Investors	Equity - International Core	753
Russell Implementation Services	Equity - International Core	56
Total International Equity		**$ 6,628**
Global Equity		
Capital Guardian Trust Company	Equity - Global Growth	$ 2,208
Invesco	Equity - Global Core	1,935
Brandes Investment Partners	Equity - Global Value	424
Total Global Equity		**$ 4,567**
Fixed Income		
BlackRock Financial Management, Inc.	Fixed Income - Core Active	$ 973
Western Assets Management Co.	Fixed Income - Core Active	794
Reams Asset Management Co.	Fixed Income - Core Active	472
Goldman Sachs	Fixed Income - Core Opportunistic	430
Taplin, Canida & Habacht	Fixed Income - Core Active	408
Seix Investment Advisors	Fixed Income - Core Active	343
Pacific Investment Management Company	Fixed Income - Core Opportunistic	301
Lehman Brothers Asset Management, LLC	Fixed Income - Core Enhanced	251
Northern Trust Company	Fixed Income - TIPS Index	215
Hughes Capital Management, Inc.	Fixed Income - Core Active	214
Loomis, Sayles & Company, L.P.	Fixed Income - Core Opportunistic	196
Russell Implementation Services	Fixed Income - Core	56
Allegiant	Fixed Income - Core Active	12
Barclays Global Investors	Fixed Income - Core	5
Total Fixed Income		**$ 4,670**
Alternative Investments		
Indiana Investment Fund, L.P.	Private Equity	$ 1,255
PAAMCO	Absolute Return	1,152
Blackstone	Absolute Return	1,140
Cerberus Institutional Partners, Series Four	Private Equity	1,137
Brentwood Associates Fund IV, L.P.	Private Equity	1,123
Lion Capital Fund II, L.P.	Private Equity	1,111
Terra Firma Capital Partners III, L.P.	Private Equity	796

Other Supplementary Information:
Investment Expenses – Year Ended June 30, 2008 (continued)

(dollars in thousands)

Investment Expenses

Alternative Investments (continued)		
Natural Gas Partners IX, L.P.	Private Equity	$ 766
New Mountain Partners III, L.P.	Private Equity	748
OCM Asia Principal Opportunities Fund L.P.	Private Equity	677
Court Square Capital Partners II, L.P.	Private Equity	639
EnCap Energy Capital Fund VII, L.P.	Private Equity	612
Mill Road Capital I, L.P.	Private Equity	597
Avenue Special Situations Fund V, L.P.	Private Equity	595
Lindsay Goldberg & Bessemer L.P.	Private Equity	573
Energy Capital Partners I, L.P.	Private Equity	568
WLR Recovery Fund IV, L.P.	Private Equity	564
Silver Lake Partners III, L.P.	Private Equity	545
Warburg Pincus X, LP	Private Equity	517
Merit Mezzanine Fund IV, L.P.	Private Equity	504
Technology Partners Fund VIII, L.P.	Private Equity	491
Blackstone Real Estate Partners VI, L.P.	Real Estate	475
Lehman Crossroads Fund XVIII- Venture Capital, L.P.	Private Equity	475
Greenpark International Investors III, L.P.	Private Equity	467
OCM Opportunities Fund VII, L.P.	Private Equity	464
PACVEN Walden International Venture Fund VI, L.P.	Private Equity	420
OCM Opportunities Fund VI, L.P.	Private Equity	375
Horsley Bridge International IV, L.P.	Private Equity	368
Lexington Capital Partners VI-B, L.P.	Private Equity	366
Vista Equity Partners III, L.P.	Private Equity	336
Dorchester	Absolute Return	328
Lindsay Goldberg III, L.P.	Private Equity	328
Horsley Bridge IX, L.P.	Private Equity	302
Colony Credit Opportunity Fund, L.P.	Real Estate	259
Ares Capital Opportunities Fund III, L.P.	Private Equity	219
Arch Venture Fund VII, L.P.	Private Equity	210
GSO Capital Opportunities Fund, L.P.	Private Equity	188
Lindsay Goldberg & Bessemer I, L.P.	Private Equity	185
Crestview Partners II	Private Equity	175
CVC European Equity Partners V, L.P.	Private Equity	175
ARCH Venture Fund VI, L.P.	Private Equity	173
Actis Emerging Markets 3, L.P.	Private Equity	150
Advent International GPE VI, L.P.	Private Equity	150
House Investments - Real Estate Opportunity Fund III, L.P.	Real Estate	138
York Special Opportunities Fund, L.P.	Private Equity	113
Invesco	Real Estate	98
A.M. Pappas Life Science Ventures IV	Private Equity	94
E.I.I. Realty Securities, Inc.	Real Estate	76
Lehman Brothers VCAF	Private Equity	75
House Investments - Real Estate Opportunities Fund III-A, L.P.	Real Estate	74
House Investments - Real Estate Opportunities Fund IV, L.P.	Real Estate	69
Horsley Bridge Growth VIII, L.P.	Private Equity	57
Indiana Future Fund I, L.P.	Private Equity	55
Credit Suisse VCAF	Private Equity	49
Hellman & Friedman Capital Partners VI, L.P.	Private Equity	(38)
Total Alternative Investments		**$ 23,558**
Short-Term Investments		
J. P. Morgan Investment Mgmt Inc.	Sweep fees	865
Total Investment Expenses		**$ 67,443**

Other Supplementary Information:
Contractual and Professional Services Expenses
Year Ended June 30, 2008

(dollars in thousands)

Individual or Firm	Fee	Nature of Services
Indiana Office of Technology	$ 6,314	IT System Development and Network Support
Clifton Gunderson	2,627	Processing and Reconciling Services
Ernst & Young	482	Accounting and Process Documentation Services
Ciber, Inc.	214	System Integration Consultant
Baker & Daniels	183	Legal Services
Ryan Consulting Group	161	Report Development and Processing
McCready and Keene, Inc.	150	Actuarial Services
Ice Miller Legal & Business Advisors	105	Legal Services
Information Builders	96	Web Reporting Services
Foster Pepper, LLC	57	Legal Services
AIRvan Consulting LLC	57	Market Research Services
Omkar Markand, M.D.	45	Medical Consulting - 1977 Fund
Sungard Availability Services	37	Computer Backup Services
CEM Benchmarking Inc.	35	Benchmarking Services
Gartner Inc.	33	Information Technology Research and Advisory
Barada Associates, Inc.	30	Background Checks
Stephenson Morow & Semler	26	Legal Services
Groom Law Group	22	Legal Services
The Anderson Group Consulting, LLC	18	Data Entry Services
LexisNexis	18	Address Search Services
Kirkpatrick & Lockhart Preston Gates Ellis, LLP	18	Legal Services
Kinsley Group	16	Strategic Consulting
Great-West Life and Annuity	15	Recordkeeping Services
The Berwyn Group	14	Address Search Services
Kreig Devault, LLP	12	Legal Services
Teachers Retirement Fund	11	IT Shared Services
Internal Revenue Service	10	Private Letter Ruling Service Fee
Other Contractual and Professional Services	54	Other Services
Total Contractual and Professional Services Expenses	**$ 10,860**